

ZEAL Voyage China Fund



Monthly Report February 2024

www.zealasset.com

Important Information

- ZEAL Voyage China Fund constituted in the form of a unit trust established under the laws of Hong Kong. The Fund primarily invests in listed equities with a China focus.
- The Fund's investments are concentrated in Mainland China and Hong Kong. This may result in greater volatility than portfolios which comprise broad-based global investments.
- Investing in emerging markets such as China involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The Fund may invest in derivative instruments and access products which may involve additional risks (For example, counterparty, market and liquidity risk).
- HKD (dist) Units pay dividends on a semi-annual basis at the Manager's discretion. Distributions will not be paid out of capital or effectively out of capital of the fund. There is no guarantee that any distributions will be made and there is no target level of distribution payout.
- For currency hedged share classes, the currency hedging may not be a precise hedge and there is no guarantee that the hedging will be entirely successful.
- The RMB is not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Such government policies and restrictions are subject to change, and there can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.
- The Fund may invest in other funds (including ETFs) which make direct investments in A-shares and there will be additional costs involved when investing into these underlying funds. This may involve additional risk (e.g. investment objective risk, conflicts of interest risk etc.). The Fund is also subject to performance fee risk which may adversely affect the Fund's value.
- The Fund's investment through the Stock Connect may involve additional risks (e.g. quota limitations, operational risk, suspension risk, regulatory risk, taxation risk etc). Investment in certain Mainland China securities may be subject to Mainland China tax risk.
- You may lose part or all of your investment. You should not invest in the Fund solely based on this information. Prior to investing, please refer to the Explanatory Memorandum of the fund for details including the risk factors.

Investment Strategy

The fund seeks to achieve its objective primarily through exposure to companies established in China or those which, whilst established outside China, derive a significant proportion of their revenue from business related to China.

The fund primarily invests in stocks listed in Hong Kong, Shanghai and/or Shenzhen. Generally, the asset allocation strategy is that at least 70% of the fund's non-cash assets will be invested in Hong Kong stocks, and 0% to 20% in stocks listed in Shanghai or Shenzhen (exposure to A-shares and B-shares may be obtained in different ways, including indirect exposure, such as through investing in exchange traded funds ("ETFs") and/or other funds that invest in the relevant PRC listed shares, and direct exposure (in the case of A-shares, such as via the Shanghai-Hong Kong Stock Connect or other relevant programmes, when they become available). In addition, at least 80% of the fund's non-cash assets will be invested in China-related investments.

Fund Manager's Report

The Chinese equity market staged a robust comeback in February following a sluggish January. Major indices recorded their best single-month rebound since the beginning of last year, with both the Hang Seng China Enterprises Index (HSCEI) and the CSI300 Index gaining over +9%¹. By the end of February, the YTD declines of the MSCI China Index and HSCEI had narrowed to -2.86% and -1.57%, respectively, while the CSI300's YTD return had turned positive¹.

Several factors contributed to the strong rally in February:

1. National team's buying to stabilize the market: In response to the stock rout in January, the Chinese government injected billions directly into the market to stabilize it. Some brokers estimated that the state-backed funds, known as the national team, have bought RMB 410 billion worth of exchange-traded funds (ETFs)¹. While most of the funds were directed to onshore CSI300-linked ETFs, the Hong Kong market climbed even higher due to its lower valuations and lighter positioning among investors. The national team's buying not only boosted investor confidence but also helped prevent knock-ins of derivative products, which had prompted forced selling and exacerbated the market downturn in January.

2. Improved economic data: Economic indicators show sequential improvement, particularly in the service sector, driven by strong travel-related activities. Tourism experienced significant growth during the Chinese New Year holiday, with both travel numbers and tourism-related revenues surpassing pre-pandemic levels.

3. Shift in investor focus from bonds to high-dividend stocks: As the Chinese government's 10-year bond yield slid from 2.7% in November to 2.35% by the end of February, institutional investors seeking high yields are shifting their investments from bonds to high-dividend stocks, as the MSCI China Index's dividend yield exceeded the 10-year bond yield¹. In the past few years, many Chinese companies increased their dividend payouts and performed share buybacks to enhance investor returns, thereby strengthening the attractiveness of their shares.

Foreign investor sentiment has also turned positive, with a Bloomberg report suggesting that the volume of call options tracking Chinese markets surged, reaching the highest level in over a year in mid-February. This is certainly due to the extremely low valuation of Chinese stocks. Before the significant rally in February, the forward PE ratio of the MSCI China Index had plummeted to 8x, almost the lowest level in the past 10 years¹. Putting it into historical context, Chinese stocks are now trading at much cheaper valuations than Japanese equities after Japan's asset bubble burst in the early 1990s². Additionally, in terms of cyclically adjusted PE ratios, Chinese stocks are trading at similar levels as US stocks did after the Great Depression in the 1930s². We believe that selling now would be ill-advised given the cheap valuation of the market.

Many investors are pinning their hopes of market recovery on the government's stimulus. For those anticipating more aggressive policy announcements around the National People's Congress (NPC) in early March, the outcome may be disappointing. The NPC announced no further fiscal expansion for the year and set the official budget at 3% of GDP, which fell below market expectations.

Nevertheless, we believe this aligns with the conservative policy stance the government has adopted. Central government has shown a strong commitment to transforming the economy from one driven by investment and real estate to a more technology-enabled, self-reliant, and consumption-driven model. This means refraining from injecting excessive liquidity to artificially stimulate the property market, even though it might offer a short-term solution to revive economic momentum.

The government's policy approach has consistently been gradual and sensible rather than adopting a "whatever it takes" mentality. While this approach may result in a slower economic recovery and continued sluggish property sales in the short term, it aligns with the government's long-term policy goals and economic blueprint.

¹Source: Bloomberg, as of February 29 2024

²Source: Alpine Macro, as of February 20 2024

Eligible Fund under the Hong Kong Capital Investment Entrant Scheme⁰

Fund Information

Manager	Zeal Asset Management Limited	
CIO	Jacky CHOI Nga Chung	
Portfolio Manager	Zeal Investment Team	
Fund Size	HKD1,373.25 million	
Subscription Fee	Up to 5% of NAV	
Management Fee	1.75% p.a.	
Performance Fee	15% (High-Water Mark)	
Trustee	BOCI-Prudential Trustee Limited	
Classes	Current NAV/Unit	Launch Date
HKD Units	HKD1.2146	17-09-2010
USD Units	USD1.0993	31-03-2011
RMB (hedged) Units	RMB0.8243	30-05-2014
AUD (hedged) Units	AUD0.8163	30-05-2014
HKD (dist) Units	HKD0.7444	30-05-2014
Classes	ISIN Code	Bloomberg Code
HKD Units	HK0000068285	VOYZECH HK
USD Units	HK0000077773	VOYZECU HK
RMB (hedged) Units	HK0000199692	VOYZECR HK
AUD (hedged) Units	HK0000199676	VOYZECA HK
HKD (dist) Units	HK0000199684	VOYZCHD HK

ZEAL Voyage China Fund (HKD Units) vs China Indexes

	1 month	3 months	6 months	YTD	Since Inception
ZEAL Voyage China Fund	5.91%	-2.54%	-12.61%	-2.32%	21.46%
Hang Seng Index	6.63%	-2.98%	-9.32%	-3.14%	18.79%
Hang Seng China Enterprises Index	9.32%	-2.95%	-9.61%	-1.57%	-24.77%

ZEAL Voyage China Fund

Exposure by Industry

Communication Services	4.65%
Consumer Discretionary	17.20%
Consumer Staples	5.01%
Energy	5.91%
Financials	14.33%
Health Care	9.06%
Industrials	8.04%
Information Technology	4.13%
Materials	3.20%
Real Estate	1.33%
Utilities	9.32%
Others	15.38%
Cash & Cash Equivalents	2.43%
Total	100.00%

Portfolio Characteristics*

Price/Earnings Ratio	9.81
Price/Book Ratio	2.20
Dividend Yield	4.44

* based on market consensus for FY 2024 and the internal estimates of Zeal Asset Management Limited of the Long Equity Exposure

Exposure by Asset Class

Equity	85.66%
Government Bond	11.96%
Index Futures	0.00%
Currency Forward Contracts	-0.05%
Cash & Cash Equivalents	2.43%

Exposure by Geography

Hong Kong	86.42%
Mainland China	11.20%
Others	-0.05%
Cash & Cash Equivalents	2.43%
Total	100.00%

Market Capitalisation Exposure (Equity)

>US\$20Bn	31.53%
US\$5-20Bn	39.48%
US\$1-5Bn	12.87%
<US\$1Bn	1.78%
Total	85.66%

Number of Positions

Long	32
Short	0

Top 5 Stock Holdings#

Alibaba Group Holding Ltd - SW	6.33%
China Resources Power Holdings Company Limited	6.28%
Shenzhou International Group Holdings Limited	5.08%
Shenzhen Mindray Bio-Medical Electronics Co Ltd - A	4.92%
PetroChina Company Limited - H	4.90%
Total	27.50%

data as of 29 December 2023

Note that stock holding may be invested indirectly through derivative instruments (such as participatory notes). For such indirect exposure, the underlying stock is counted as the stock holding in this table.

Monthly Performance Since Launch (% , HKD Units)

	January	February	March	April	May	June	July	August	September	October	November	December	Annual
2010									1.37	4.18	1.81	-0.21	7.29
2011	-1.37	-2.22	5.23	5.91	-0.39	0.37	2.87	-4.86	-8.87	5.86	-3.79	-0.21	-2.58
2012	2.23	10.46	-4.47	1.15	-4.91	-0.87	-0.75	0.37	5.36	2.37	3.89	2.87	18.09
2013	5.95	-1.24	-4.20	0.91	2.35	-3.33	2.40	0.70	2.17	2.06	2.53	1.17	11.63
2014	-4.72	2.83	-3.73	-3.89	1.50	1.47	3.54	-0.05	-6.23	2.60	3.32	5.72	1.55
2015	-0.57	2.19	2.78	13.54	-0.56	-6.58	-9.14	-9.05	-1.82	6.40	-2.74	0.80	-6.78
2016	-7.93	-0.91	7.35	-3.01	1.80	0.55	4.38	7.79	2.54	-2.21	-0.10	-2.53	6.79
2017	3.26	1.86	3.09	1.37	3.97	4.27	5.09	4.40	3.27	1.90	1.64	2.14	42.81
2018	4.11	-2.82	-7.33	-1.44	1.43	-7.38	-3.93	-4.94	-4.01	-8.96	1.35	-4.75	-33.13
2019	5.13	3.32	3.26	1.83	-12.68	10.65	1.82	-4.29	0.40	9.11	-0.44	6.46	24.85
2020	-3.21	1.34	-6.99	11.11	4.56	8.27	4.51	6.55	0.08	1.80	5.91	8.08	49.02
2021	3.55	-1.81	-1.87	4.69	3.03	1.20	-7.20	-0.56	-7.05	-3.28	-3.54	-3.36	-15.77
2022	-5.60	-4.05	-3.37	-4.77	0.87	3.65	-7.58	-3.10	-12.93	-12.02	22.08	6.95	-21.95
2023	9.43	-11.07	-0.31	-5.18	-8.46	1.53	6.69	-6.36	-3.49	-4.49	-2.73	-0.22	-23.58
2024	-7.78	5.91											

Performance Since Launch (HKD Units)



Data relates to ZEAL Voyage China Fund, as of 29 February 2024. Fund performance based on HKD Units NAV-NAV with dividend reinvested. Sources: BOCI-Prudential Trustee Limited; Bloomberg; Zeal Asset Management Limited.

Due to rounding, the sum of the portfolio may not be equal to 100%.

† Applicable to HKD Units and HKD (dist) Units.

^ Zeal Asset Management Limited was awarded BENCHMARK Fund of the Year Awards 2021, Hong Kong - Greater China Equity- OUTSTANDING ACHIEVER, House Awards. Source: BENCHMARK House Awards are based on the qualitative methodologies and tools determined by BENCHMARK and reflect the performance data between 1 July 2020 and 30 June 2021. For more information about the methodology, please visit <https://www.benchmark.today/fund-awards/>

* Morningstar Awards 2017 ©. Morningstar, Inc. All Rights Reserved. Based on the performance as of 31 Dec 2016. Awarded to ZEAL Voyage China Fund (HKD Units) for Best Greater China Equity Fund, Hong Kong

ZEAL Voyage China Fund

All comments, opinions or estimates contained in this Fund's Manager's report are entirely fund manager's judgement as of the date of this report and are subject to change without notice. In preparing this report, we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

Investments involve risks. Like most funds, the Fund does not offer any guarantees. You may lose part or all of your investment. You should not make an investment decision solely based on this information. Prior to investing, please read the Explanatory Memorandum of the Fund for details including risk factors. Past performance is not indicative of future performance. If you have any queries, please contact your financial advisor and seek professional advice. This material is issued by Zeal Asset Management Limited and has not been reviewed by the Securities and Futures Commission.

The fund is subjected to distribution restrictions in certain other jurisdictions, please refer to the distribution restrictions in the Explanatory Memorandum for details.

Information for investors in Switzerland:

The offering of the Units in Switzerland will be exclusively made to, and directed at, qualified investors (the "Qualified Investors"), as defined in Article 10 para. 3 and 3ter of the Swiss Collective Investment Schemes Act of 23 June 2006, as amended from time to time ("CISA"), to the exclusion of any high-net-worth individuals and their private investment structures with an opting-out pursuant to the Article 5 para. 1 of the Swiss Financial Services Act ("FinSA"). The Fund has not been and will not be approved by the Swiss Financial Market Supervisory Authority ("FINMA") for offering to non-qualified investors. Therefore, the Explanatory Memorandum, any other offering materials and/or marketing materials relating to the Units may be made available in Switzerland solely to Qualified Investors.

Distribution in the European Economic Area ("EEA") and the United Kingdom:

In relation to each member state of the EEA and the United Kingdom (each a "Relevant State") which has implemented the Alternative Investment Fund Managers Directive (Directive (2011/61/EU)) (the "AIFMD") and/or as AIFMD forms part of local law of the Relevant State, this monthly report may only be distributed and Units may only be offered or placed in a Relevant State to the extent that (i) the Fund is permitted to be marketed to professional investors in the Relevant State in accordance with AIFMD (as implemented and as it forms part of the local law and regulations of the Relevant State) or (ii) this monthly report may otherwise be lawfully distributed and the Units may otherwise be lawfully offered or placed in that Relevant State (including at the initiative of the investor).

In relation to each Relevant State which, at the date of this monthly report, has not implemented AIFMD, this monthly report may only be distributed and Units may only be offered or placed to the extent that this monthly report may be lawfully distributed and the Units may lawfully be offered or placed in that Relevant State (including at the initiative of the investor). This monthly report is being issued in the United Kingdom by Zeal Asset Management Limited to and/or is directed only at persons who are professional investors for the purposes of the Alternative Investment Fund Managers Regulations 2013 and is accordingly exempt from the financial promotion restriction in Section 21 of the Financial Services and Markets Act 2000 ("FSMA") in accordance with regulation 29(3) of the FSMA (Financial Promotions) Order 2005. The opportunity to invest in the Fund is only available to such persons in the United Kingdom and this monthly report must not be relied or acted upon by any other persons in the United Kingdom.

No key information document has been prepared in respect of any Class of Units in accordance with Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (including as implemented into the domestic law of the United Kingdom). Accordingly, such Classes of Units are not available to, and no person may advise on, offer or sell such Classes of Units for or to, any retail client (as defined in the EU's re-cast Markets in Financial Instruments Directive (2014/65/EU)) in a Relevant State.

The information provided herein is not intended for U.S. citizens, U.S. residents or U.S. companies established under the laws of the United States.